

Message Text

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ORIGIN TRSE-00

INFO OCT-01 ARA-10 EUR-12 ISO-00 EB-08 XMB-02 AID-05
CEA-01 CIAE-00 COME-00 FRB-03 INR-10 NSAE-00
SP-02 STR-07 LAB-04 SIL-01 OMB-01 AGR-01 EA-10
IO-13 NEA-11 ICA-11 OPIC-03 SS-15 L-03 /134 R

TX-387

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EXIMBANK:JDUFF (DRAFT)
EUR/RPE:ECASEY
ARA/MEX:KMCKUNE
EB/IFD/ODF:TPARKER

-----128626 011120Z /10

R 010158Z JUL 78
FM SECSTATE WASHDC
TO AMEMBASSY PARIS
INFO AMEMBASSY BRUSSELS
AMEMBASSY MEXICO

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ACTION EMB. PARIS, INFO USOECD, BRUSSELS FOR USEEC

E.O. 11652: N/A

TAGS: ETRD, EFIN

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SUBJECT: MIXED CREDITS

1. WE HAVE RECEIVED A NOTIFICATION UNDER THE INTERNATIONAL
ARRANGEMENT ON EXPORT CREDITS THAT THE GOF WAS PROVIDING A
MIXED CREDIT TO MEXICO FOR THE PROCUREMENT IN FRANCE OF
GOODS AND SERVICES NEEDED IN CONNECTION WITH THE EXTENSION
OF THE MEXICAN MASS TRANSIT SYSTEM.

2. THE MIXED CREDIT HAS A TOTAL VALUE OF 993 MILLION

FRANCS (APPROXIMATELY \$210 MILLION) WITH THE GOF LOAN TO BE REPAYED IN 16 ANNUAL INSTALLMENTS AT 3.5 PERCENT INTEREST WITH A FOUR-YEAR GRACE PERIOD; THE PRIVATE CREDIT IS GUARANTEED BY THE GOF WITH REPAYMENT OVER 10 YEARS IN EQUAL SEMI-ANNUAL INSTALLMENTS. THE GRANT ELEMENT OF THIS MIXED CREDIT TRANSACTION IS 15.2 PERCENT.

3. EMBASSY IS REQUESTED ADVISE DE MOREL THAT IN OUR VIEW USE OF MIXED CREDIT IN THIS TRANSACTION CONSTITUTES OBJECTIONABLE USE OF MIXED CREDIT SYSTEM WHICH CAN ONLY CREATE RESENTMENT ON PART OF US EXPORTERS AND INCREASE PRESSURE BY US BUSINESSMEN AND CONGRESS FOR USG TO EMULATE FRENCH ACTION. THIS WOULD BE SERIES OF

OF NO BENEFIT TO FRANCE OR THE US. IN OUR VIEW ADVANCED DEVELOPING COUNTRIES SUCH AS MEXICO SHOULD NOT BE RECIPIENTS OF MIXED CREDIT, PARTICULARLY IN CONNECTION WITH A TRANSACTION WHICH HAS SUCH COMMERCIAL SIGNIFICANCE.

4. GOF HAS TENDED TO JUSTIFY ITS USE OF MIXED CREDITS AS AN INTEGRAL ASPECT OF ITS AID PROGRAM. THIS PARTICULAR MIXED CREDIT TRANSACTION APPEARS UNRELATED TO OVERALL AID PROGRAM AND SEEMS A CLEAR CASE OF THE GOF SEEKING TO USE AN AID LOAN WITH A GRANT ELEMENT OF 41.96 PERCENT TO OBTAIN LIMITED OFFICIAL USE

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A SUBSTANTIAL AMOUNT OF RELATED COMMERCIAL BUSINESS.

5. THIS ACTION MAY PROVIDE EXPENSIVE AND WASTEFUL COMPETITION SINCE THE EXPORT-IMPORT BANK WILL CONSIDER MATCHING THIS MIXED CREDIT. THIS ISSUE ONLY HIGHLIGHTS THE IMPORTANCE OF FURTHER INTERNATIONAL EFFORT TO CONTROL THE USE OF MIXED CREDITS. WE HOPE THAT THE GOF WILL GIVE SERIOUS CONSIDERATION TO THIS MATTER AND TO SUPPORTING A MAJOR IMPROVEMENT IN THE HANDLING OF MIXED CREDITS WHEN REVIEW OF THE PRESENT CONSENSUS BEGINS IN THE FALL. VANCE

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